



31 May 2012

Secretary
House Standing Committee on Economics
Parliament House
Canberra ACT 2600

By email: economics.reps@aph.gov.au

RE: Income Tax (Managed Investment Trust Withholding Tax) Amendment Bill 2012

AMP welcomes the opportunity to provide comments to the House Standing Committee on Economics (the "Committee") on the proposed changes to the withholding tax rates for foreign investors in Managed Investment Trusts (MITs) set out in the *Income Tax (Managed Investment Trust Withholding Tax) Amendment Bill 2012*.

AMP was disappointed in the proposed changes announced without consultation or advance warning by the Treasurer in the 2012 Federal Budget.

AMP is one of the largest managers of investment funds in Australia, managing over \$130 billion in funds on behalf of resident and non-resident investors and is one of the most experienced global infrastructure managers with more than 20 years experience and over 80 infrastructure (equity and debt) investments globally since 1988. Hence the Budget announcement on the changes to the MIT withholding tax regime is of critical importance to AMP and our clients.

Sovereign risk

Australia's international reputation as a previously stable investment environment has been significantly diminished as result of the proposed changes to the MIT withholding tax regime.

The suddenness of the announcement without consultation or discussion with industry, created unease within the international investment community as to whether further changes could arise that would fundamentally change the nature of investment in Australia.

International investors generally look to Australia for longer term, lower risk, investment opportunities, including property and infrastructure assets. As a result, the returns on these investments can be materially impacted by a relatively minor change, such as the proposed change to the rate of withholding tax.

For non-resident investors, the tax environment in offshore locations is a significant factor in assessing investment opportunities. This is amplified for non-resident pension funds that may be exempt from tax in their local jurisdictions. The lack of grandfathering for existing arrangements will cause some investors (including pension funds) to reconsider the viability of existing investments in Australia.

Australia is a net user of capital and is unable to source all capital investment from Australian investors. The need for foreign investment also creates competition for investment opportunities, driving higher standards of asset quality and returns for local as well as international investors. Given the size of the Australian superannuation sector assets, this ultimately promotes better investment outcomes for local superannuation members as well.

Commitment to Australia's investment policy

The decision in 2008 by the then Assistant Treasurer, Minister Chris Bowen to reduce the withholding tax rate to 7.5% for foreign investors in MITs was one founded on sound evidence based policy, backed by a recommendation from the report by the Australian Financial Centre Forum on Australia as a Financial Centre (the "Johnson Report").

We are also concerned at the Treasury admission at the Senate Estimates hearing this week that they have not quantified the impact of the change to the withholding tax rate. This admission can only cause the industry to question the Government's previously articulated commitment to sound, evidence-based policy development on such a critical matter as the ability of Australia to attract investment from international investors.

Inconsistency with other key government policies

Key government policies such as the desire to see Australia as a leading financial services centre and to more broadly promote the number of public/private partnerships in meeting infrastructure investment needs are disadvantaged as a result of the decision to change the withholding tax rate of MITs.

The Johnson Report identified that the funds management sector in Australia is one of the largest and most sophisticated in the world, largely thanks to our universal superannuation system. However, the funds management sector has not successfully managed to capitalise on its skills and expertise through the export of its services.

This remains a significant opportunity for the future productivity and growth of the Australian economy, as long as the policy objectives of the government support this outcome.

To date, the government's change to the withholding tax rate in MITs was the only legislated policy change made to support this outcome. To date, the government's policy announcements on the Investment Manager Regime recommendation from the Johnson Report continue to be deferred.

AMMP would be pleased to elaborate on any of the points touched on in our letter above, should this be of interest to the Committee. Please do not hesitate to contact myself on (02) 6295 2966 or 0412 437 3156 should the Committee have any further queries.

Yours sincerely



Alastair Kinloch